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# Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 SS-15 SP-02 PER-01 SIG-01
A-01 MMO-01 EB-08 SCA-01 IO-13 INR-07 PM-04 CU-02
AGRE-00 AID-05 CIAE-00 COME-00 DODE-00 FEA-01
NSC-05 TRSE-00 USIA-06 /096 W
----------022341Z 037972 /21
R 021847Z APR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1285
INFO AMEMBASSY OTTAWA
ALL USCONS MEXICO (BY POUCH

C O N F I D E N T I A L SECTION 01 OF 04 MEXICO 04368

E. O. 11652: GDS
TAGS: AMGT, PFOR, XX, MX
SUBJECT: PARM - ANNUAL POLICY AND RESOURCE ASSESSMENT-
PART 1.

REF: CERP 0001

1. SECTION A. U. S. INTERESTS

CONTIGUITY WITH MEXICO MEANS THAT ITS INTERNAL PROBLEMS AFFECT THE UNITED STATES TO A FAR GREATER DEGREE THAN DO THOSE OF NON-CONTIGUOUS COUNTRIES. FOR THIS REASON, THE PRINCIPAL, ALL-ENCOMPASSING U. S. INTEREST IS A MEXICO THAT IS SUFFICIENTLY PROSPEROUS ECONOMICALLY AND SUFFICIENTLY STABLE POLITICALLY THAT ITS INTERNAL PROBLEMS ADVERSELY AFFECTING U. S. INTERESTS WILL BE REDUCED TO MANAGEABLE LEVELS.

SPECIFIC ASPECTS OF THE U. S. INTEREST ARE:

A) CONTIGUITY RELATED INTERESTS SUCH AS CONTROL OF THE
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MOVEMENT ACROSS THE BORDER OF PEOPLE (ILLEGAL ALIENS MOTIVATED BY ECONOMIC FACTORS NOW AND POSSIBLY BY POLITICAL INSTABILITY IN THE FUTURE); OF GOODS (NARCOTICS, WEAPONS, AND OTHER CONTRABAND); AND OF AGRICULTURAL PEST . AND COOPERATION IN SUCH AREAS AS CROSS BORDER ENVIRONMENTAL DAMAGE, UTILIZATION OF RIVERS AND GROUNDWATERS AND FISHERY RESOURCE ALLOCATION.

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B) U. S. ECONOMIC PROSPERITY, COMPRISING MEXICO AS A SOURCE OF OIL; AS A MARKET FOR U. S. PRODUCTS; AS ONE OF THE TWO LARGEST LDC BORROWERS FROM U. S. BANKS; AND AS A RECIPIENT OF SIGNIFICANT EQUITY AND PORTFOLIO INVESTMENT;

(C) OUR RELATIONSHIP WITH MEXICO AS A KEY LDC; AND

D) THE SAFETY AND WELL-BEING OF A LARGE U. S. CITIZEN POPULATION, BOTH TRANSIENT AND RESIDENT.

THESE INTERESTS DO NOT CONFLICT WITH OTHER U. S. INTERESTS PER SE, BUT THE UNIQUENESS OF THOSE INTERESTS DERIVING FROM CONTIGUITY IS NOT ALWAYS REFLECTED IN OUR CURRENT POLICIES TOWARD MEXICO. POLICIES DESIGNED TO ADVANCE OUR OVERRIDING INTEREST, MEXICAN PROSPERITY AND STABILITY, MIGHT CONFLICT WITH OUR POLICIES TOWARD OTHER GEOGRAPHICAL AND FUNCTIONAL AREAS OR TOWARD MULTILATERAL COMMITMENTS SUCH AS MOST FAVORED NATION TREATMENT. FURTHERMORE, POLICIES DESIGNED TO FURTHER U. S. INTERESTS VIS-A-VIS MEXICO COULD CONFLICT WITH EACH OTHER. FOR EXAMPLE, WE WOULD SERIOUSLY AGGRAVATE THE THREAT TO MEXICAN SOCIAL, ECONOMIC, AND POLITICAL STABILITY BY EXPELLING LARGE NUMBERS OF MEXICANS ILLEGALLY IN THE UNITED STATES.

2. SECTION B. CHARGE'S OVERVIEW

A YEAR AGO THIS EMBASSY'S CASP SUBMISSION DEFINED THE KEY ISSUE AS HOW TO MINIMIZE THE DAMAGE TO U. S. INTERESTS
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FROM THE SOCIAL AND ECONOMIC DISLOCATIONS WE SAW LYING AHEAD FOR MEXICO. EVENTS OF THE LAST YEAR INDICATE MEXICO IS RUSHING TOWARDS THIS FUTURE WITH A SPEED WHICH MAY PROVIDE FAR LESS TIME THAN WE THOUGHT TO DEAL WITH THIS ISSUE.

THE KEY ELEMENTS OF THE DEVELOPING FY 1979 ENVIRONMENT ARE:

-- THE RELUCTANCE OF THE LOPEZ PORTILLO ADMINISTRATION, OWING TO A COMBINATION OF ECONOMIC IDEOLOGY AND A PERCEIVED THREAT TO ITS POLITICAL CONSENSUS, TO TAKE THE STABILIZATION MEASURES NECESSARY TO RESTORE FINANCIAL STABILITY, IS AN ELEMENT FUNDAMENTAL IN ITSELF AND TO THESE WHICH FOLLOW;

--GIVEN ITS ECONOMIC DISEQUILIBRIUM, MANIFESTED IN PART BY ITS EXTRAORDINARY FOREIGN DEBT BURDEN, MEXICO WILL NOT RESUME SUSTAINABLE REAL PER CAPITA ECONOMIC GROWTH BEFORE THE END OF FY 79;

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-- 20 PLUS INFLATION WILL PLAY HOB WITH INCOME DISTRIBUTION, SEVERELY AFFECTING THE LOWEST INCOME GROUPS;

-- THE SHORT-FALL BETWEEN NEW ENTRANTS TO THE LABOR FORCE AND JOB CREATION, CURRENTLY AT LEAST 300,000 A YEAR, WILL NOT DECREASE SIGNIFICANTLY OWING TO POLICIES FAVORING LABOR DISPLACING INVESTMENT AND A HIGH POPULATION GROWTH RATE;

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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1286
INFO AMEMBASSY OTTAWA
ALL USCONS MEXICO (BY POUCH)

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-- WHILE THERE COULD BE SOME MINOR IMPROVEMENT BY FY 79, MEXICO IS NOT LIKELY TO RESOLVE ITS LAND TENURE PROBLEMS AND TO IMPROVE APPRECIABLY THE PERFORMANCE OF ITS AGRICULTURAL SECTOR;

-- ILLEGAL IMMIGRATION TO THE U. S. WILL INCREASE, FEEDING GROWING PRESSURES IN THE U. S. TO TRY TO STOP THE INFLOW OF ILLEGAL ALIENS AND TO INCREASE SUBSTANTIALLY THE DEPORTATIONS OF ALIENS ILLEGALLY WORKING AND RESIDING IN THE U. S.; AND

-- SOCIAL AND ECONOMIC PRESSURES INCREASINGLY WILL BECOME THE FOCAL POINTS OF INTRA-ELITE POLITICAL COMPETITION, THREATENING THE UNITY OF THE RULING COALITION, AND THEREFORE, POLITICAL STABILITY ITSELF.

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THIS PARM RECOMMENDS THAT THE UNITED STATES CONCENTRATE WITH MEXICO ON DEVELOPING MEASURES TO ATTACK THE CAUSES OF ILLEGAL IMMIGRATION, AVOIDING UNILATERAL SHORT TERM RE-ACTIVE MEASURES, WHICH WILL LEAD TO CONFLICT WITH MEXICO
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AND WHICH WILL JEOPARDIZE OUR OWN PRIMARY NATIONAL INTEREST. IN BILATERAL TRADE, WE BELIEVE THE US SHOULD SEEK TO BE MORE RESPONSIVE THAN IT HAS BEEN IN THE PAST TO LEGITIMATE MEXICAN CONCERNS WITHOUT VIOLATING COMMITMENTS IN OTHER FORUMS. LIKEWISE, WE RECOMMEND THE USG ADOPT A LOW PROFILE, WAITING POLICY ON MEXICAN PETROLEUM, SINCE CIRCUMSTANCES ARE FORCING MEXICO TO EXPORT GREATER QUANTI-TIES OF CRUDE OIL TO THE UNITED STATES.

AS THIS IS WRITTEN, THE TWO GOVERNMENTS ARE PREPARING TO DISCUSS AN AGENDA OF ISSUES IN A WORKING GROUP (OR GROUPS) COMMISSIONED BY PRESIDENTS CARTER AND LOPEZ PORTILLO. IN THE ABSTRACT, THE MAJOR ISSUE FOR THE U. S. SIDE DURING THESE DISCUSSIONS AND EXTENDING INTO THE PARM TIMEFRAME AND BEYOND WILL BE:

TO WHAT EXTENT WILL OUR EVIDENT INTEREST IN PROMOTING MEXICAN PROSPERITY AND STABILITY SUBSTANTIALLY INFLUENCE

OUR POLICIES ON A HOST OF SPECIFIC, MORE FINITE ISSUES?

THIS PARM STRONGLY RECOMMENDS THAT THIS INTEREST BE A PRI-MARY CONSIDERATION IN EXECUTIVE BRANCH DECISIONS AFFECTING MEXICO.

3. SECTION C. U. S. OBJECTIVES, COURSES OF ACTION AND ISSUES.

1. U. S. OBJECTIVES ARE:

(A) TO PROMOTE MEXICAN PROSPERITY AND STABILITY AS A MEANS OF PROTECTING AND FURTHERING SPECIFIC U. S. INTERESTS;

(B) TO DEVELOP COOPERATIVE MEASURES IN A BILATERAL FRAME-
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WORK TO REDUCE THE FLOW OF MEXICANS ILLEGALLY ENTERING THE UNITED STATES. .

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(C) TO REDUCE THE FLOW OF NARCOTICS ENTERING THE UNITED STATES FROM MEXICO;

(D) TO MAINTAIN AND PROTECT US ECONOMIC PROSPERITY INTERESTS;

(E) TO PROTECT THE WELFARE AND PROPERTY OF U. S. CITIZENS IN MEXICO; SPECIFICALLY, TO ENSURE THE PROTECTION OF HUMAN RIGHTS OF AMERICANS ARRESTED IN MEXICO;

(F) TO ENCOURAGE THE GOM TO REDUCE MEXICO'S BIRTH RATE; AND TO ASSIST ITS EFFORTS AS REQUESTED;

(G) TO INCREASE COOPERATION WITH MEXICO IN MULTILATERAL FORUMS; AND

(H) TO PROMOTE COOPERATION WITH MEXICO TO DEAL WITH THE SPECIAL PROBLEMS OF THE BORDER REGION.

2. COURSES OF ACTION

COURSES OF ACTION FOR OBJECTIVES (A) (B) AND (D) ABOVE IN-VOLVE ISSUES DISCUSSED IN THE FOLLOWING SECTION. (C), (E), (F), AND (G) ARE OBJECTIVES REPRESENTING LONG TERM INTERESTS ON WHICH COURSES OF ACTION HAVE PREVIOUSLY BEEN DECIDED (SEE STATE A-5028 FOR APPROVED FY 77-78 CASP). CONFIDENTIAL

BY OBJECTIVE (H), WE SUGGEST THE BORDER REGION (AND ITS

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R 021847Z APR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1287
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PROBLEMS) OUGHT TO BE APPROACHED AS AN ORGANIC ENTITY. AT THIS POINT, WE BELIEVE THIS COULD BEST BE HANDLED BY THE MEXICO-UNITED STATES WORKING GROUP APPOINTED TO DEAL WITH THIS AGENDA ITEM AGREED UPON BY PRESIDENTS CARTER AND LOPEZ PORTILLO.

3. ISSUES

(A) THAT MEXICAN PROSPERITY AND STABILITY DIRECTLY BENEFIT AND FURTHER U. S. INTERESTS IS EVIDENT, BUT THE USG LACKS THE MEANS TO DEVELOP AND TAILOR A SPECIFIC COURSE OF ACTION TO ACHIEVE OUR OBJECTIVE. WE NOW ADDRESS IT IN FRAGMENTS AS WE CONSIDER A HOST OF OTHER SPECIFIC ISSUES, OFTEN LOSING SIGHT OF IT AS WE PURSUE MORE LIMITED GOALS. MECHANISMS, WHETHER AN INTERNAL USG INTER-AGENCY ONE OR A BILATERAL COMMISSION WITH MEXICO, CANNOT IN THEMSELVES REVERSE THE TENDENCY TO ALLOW AN IMMEDIATE PROBLEM TO PREVAIL OVER LONG RANGE INTERESTS. ALONG WITH THE MECHANISM MUST GO THE POLITICAL DECISION TO SPECIFY AND WORK TOWARD OUR LONG RANGE INTEREST.
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WE RECOMMEND THAT THE MECHANISMS, WHETHER BILATERAL WORKING GROUPS OR AN OVERALL UMBRELLA GROUP CHAIRED BY STATE, BE GIVEN A MANDATE, IN THE FORM OF A PRESIDENTIAL OR NSC DIRECTIVE, TO ASSESS THE IMPACT, IN THE PRE-DECISION PHASE, OF SPECIFIC U. S. POLICIES ON MEXICAN ECONOMIC PROSPERITY AND POLITICAL STABILITY. WHATEVER EXECUTIVE DIRECTIVE IS NEEDED TO ESTABLISH THE MECHANISM SHOULD AT THE SAME TIME SPELL OUT THE REQUIREMENT OF ALL AGENCIES INVOLVED TO GIVE SPECIAL CONSIDERATION TO THE EFFECT VARIOUS DOMESTIC DECISIONS MIGHT HAVE ON THIS BASIC INTEREST.

WE MUST ALSO RECOGNIZE THAT USG UNILATERAL MEASURES AND MULTILATERAL ASSISTANCE WILL AT BEST BE MARGINAL FACTORS IN MEXICO'S ECONOMIC FUTURE. FUTURE PROSPERITY DEPENDS PRIMARILY ON RESTORING FINANCIAL STABILITY AND EVOLVING A DEVELOPMENT STRATEGY THAT WILL ENABLE MEXICO TO RESUME ECONOMIC GROWTH ACCOMPANIED BY HIGHER EMPLOYMENT, AND HENCE, MORE BALANCED INCOME DISTRIBUTION PATTERNS. THE LOPEZ PORTILLO GOVERNMENT SEEMS UNWILLING TO ADOPT THE STABILIZATION MEASURES NECESSARY TO RESTORE FINANCIAL STABILITY AND IS STILL GROPING FOR A NEW ECONOMIC DEVELOP-

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MENT MODEL TO REPLACE THE OLD "GROWTH-WITH-STABILITY/ IMPORT-SUBSTITUTION" ONE THAT PREVAILED IN THE LAST SEVERAL DECADES. ON THE ONE HAND THE GOM FEARS THE REACTION OF ORGANIZED LABOR TO STRONGER STABILIZATION MEASURES; ON THE OTHER, THE PRIVATE SECTOR OPPOSES ABANDONMENT OF IMPORT SUBSTITUTION POLICIES. IN THE FACE OF THIS DILEMMA, THE LOPEZ PORTILLO ADMINISTRATION APPEARS INTENT ON PURSUING POLICIES THAT IT BELIEVES WILL REDUCE INFLATIONARY PRESSURES GRADUALLY WITHOUT FORCING IT TO CUT BACK ON DEMAND AND IS NOT MOVING AWAY FROM IMPORT-SUBSTITUTION.

WE BELIEVE IT WOULD BE IN LOPEZ PORTILLO'S, MEXICO'S, AND
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OUR OWN BEST INTEREST FOR THE GOM TO TAKE THE POLITICAL RISKS OF STRICTER STABILIZATION MEASURES NOW RATHER THAN LATER. MEXICAN GOVERNMENTS TRADITIONALLY RESENT EXTERNAL ADVICE NOT ONLY FROM THE USG BUT ALSO FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS, WHICH THEY FEEL ARE USG TOOLS. THERE ARE WAYS TO PUT FINANCIAL PRESSURES ON THE GOM, BUT THESE COULD JUST AS LIKELY BE COUNTER PRODUCTIVE AS POSITIVE. WE RECOMMEND AS THE MOST EFFECTIVE MANNER IN WHICH WE COULD EXERCISE OUR INFLUENCE ON GOM ECONOMIC POLICIES A CONTINUAL DIALOGUE AMONG SENIOR OFFICIALS OF THE TWO GOVERNMENTS. THE WORKING GROUPS SHOULD PROVIDE A FRAMEWORK FOR SUCH A DIALOGUE.

SHOULD THE GOM FAIL TO TAKE ADEQUATE DOMESTIC STABILIZATION MEASURES AND SHOULD THE PRIVATE CAPITAL MARKET RESIST INCREASES IN THEIR HOLDINGS OF MEXICAN PAPER, THE ECONOMIC SITUATION BY FY 79 MAY REQUIRE SOME KIND OF SPECIAL FINANCIAL ASSISTANCE, EITHER BILATERAL OR MULTILATERAL, TO PROTECT OUR PRIMARY INTEREST.

(B) IN THE SHORT RUN, MEXICAN AND U. S. INTERESTS IN AND POSITIONS ON THE ILLEGAL ALIEN PROBLEM SHARPLY DIVERGE:

-- BECAUSE MEXICO'S EXPORT OF SURPLUS LABOR RELIEVES INTERNAL UNEMPLOYMENT AND EARNS FOREIGN EXCHANGE, THE GOM HAS LITTLE INCENTIVE IN REDUCING THE FLOW OF MEXICAN LABOR INTO THE U. S. AND HAS CONSIDERABLE INTEREST IN AVOIDING LARGE-SCALE DEPORTATION OF MEXICANS ALREADY IN THE U. S.

-- CURRENT U. S. POLICY IS TO STOP THE FLOW INTO THE U.S.

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R 021847Z APR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1288
INFO AMEMBASSY OTTAWA
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AND TO LOCATE AND DEPORT ALIENS ILLEGALLY RESIDING IN THE U. S. HOWEVER, THE USG HAS NOT YET ALLOCATED THE RESOURCES NECESSARY FULLY TO CARRY OUT THIS POLICY, THE PRIMARY REASON THIS PROBLEM IS NOT MORE OF AN IRRITANT IN OUR RELATIONS THAN IT ALREADY IS.

IN THE LONG RUN, U. S. AND MEXICAN INTERESTS CONVERGE: IT SERVES THE INTEREST OF BOTH COUNTRIES THAT THE MEXICAN ECONOMY DEVELOP TO THE POINT WHERE ECONOMIC FACTORS MOTIVATING ILLEGAL MIGRATION ARE SIGNIFICANTLY REDUCED. COOPERATIVE LONG RUN MEASURES - INCLUDING THOSE IN THE AREA OF DEMOGRAPHIC PLANNING AND THOSE DISCUSSED IN THE SECTION ON TRADE AND FINANCE - WOULD DEAL WITH THE PROBLEM'S ROOT CAUSES WHILE AVOIDING UNNECESSARY CONFLICT WITH MEXICO. MEANWHILE, HOWEVER, SHORT-TERM, UNILATERAL U. S. MEASURES COULD CAUSE SERIOUS CONFLICT WITH MEXICO AND DAMAGE OUR OVERALL INTEREST AS DEFINED IN THIS PARM. WHILE COOPERATING WITH MEXICO TO REDUCE THE ROOT CAUSES, WE RECOMMEND THAT ANY UNILATERAL U. S. ACTIONS TO REDUCE DEMAND IN THE U. S. (E.G., PENALIZING EMPLOYERS OF ILLEGAL
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ALIENS) SHOULD BE EXPLAINED TO THE GOM WELL IN ADVANCE AND SOME EFFORT (SOME SORT OF AMNESTY PROVISION) MADE TO MITIGATE THE NEGATIVE IMPACT ON OUR PRIMARY INTEREST. AT A MINIMUM, WE RECOMMEND THAT THE EXECUTIVE ADOPT A

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POSITION OPPOSING ANY MOVE THAT WOULD RESULT IN MASSIVE DEPORTATION OF MEXICANS ILLEGALLY IN THE UNITED STATES.

(C) WHITE MEXICO'S TRADE DEFICIT OWES LARGELY TO AN INDUSTRIAL STRUCTURE WHOSE GOODS ARE UNCOMPETITIVE ON THE WORLD MARKET, US ACTIONS HAVE RESTRICTED MEXICAN EXPORTS OF TRUCK FARM AGRICULTURAL PRODUCTS AND OF LABOR INTENSIVE MANUFACTURED GOODS, SUCH AS TEXTILES, SHOES, AND ELECTRONIC GOODS. THESE RESTRICTIONS AGGRAVATE UNEMPLOYMENT AND CONTRIBUTE TO ILLEGAL IMMIGRATION. WE RECOMMEND THAT THE USG MAKE A CONCERTED EFFORT TO BE AS RESPONSIVE AS POSSIBLE TO LEGITIMATE MEXICAN CONCERNS REGARDING TRADE RESTRICTIONS AND OPPOSE EFFORTS TO IMPOSE NEW RESTRICTIONS ON TRADE BETWEEN MEXICO AND THE U. S.

MEXICO'S ECONOMIC SITUATION IS FORCING IT TO DEVELOP AS QUICKLY AS POSSIBLE ITS CRUDE OIL AND NATURAL GAS RESOURCES. WE ANTICIPATE MEXICO WILL DEVELOP SOME ARRANGEMENT WITH U. S. OIL DRILLING FIRMS. FURTHERMORE, ITS NATURAL MARKET FOR THESE RESOURCES LIES IN THE UNITED STATES.

ASSUMING THE TREND TOWARDS LIFTING GREATER QUANTITIES AND MARKETING IT IN THE U. S. CONTINUES, THERE IS NOTHING THE U. S. SHOULD DO IN THE PETROLEUM FIELD BEYOND STANDING READY TO RESPOND QUICKLY TO ANY REQUEST FOR ASSISTANCE WHICH MEXICO MIGHT MAKE. OUR PUBLIC POSTURE SHOULD BE LOW-KEY, TO AVOID STRENGTHENING NATIONALIST SENTIMENT OPPOSING CRUDE EXPORTS TO THE UNITED STATES.

WE CAN ABSORB ALL THE CRUDE OIL AND GAS MEXICO CAN DELIVER BUT IT IS NEITHER IN OUR INTEREST NOR MEXICO'S FOR MEXICO
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TO DEVELOP FURTHER ITS PETROLEUM REFINING AT THIS TIME. THIS WOULD REQUIRE MORE EXTENSIVE FOREIGN INVESTMENT AND INCREASE MEXICO'S DEBT BURDEN, AS WELL AS FURTHER CONTRIBUTE TO THE LABOR DISPLACING NATURE OF MEXICO'S DEVELOPMENT.

4. WE HAVE NOT CHOSEN TO ADDRESS EITHER HUMAN RIGHTS OR NON-PROLIFERATION (AS SUGGESTED PARA 5, STATE 59007) IN THE PARM BECAUSE WE THINK DECIDING UPON A COURSE OF ACTION TO ADVANCE OUR OBJECTIVES INVOLVES A QUESTION OF TACTICS RATHER THAN AN ISSUE. IN BOTH CASES, WE THINK A STRAIGHTFORWARD HIGH LEVEL PRESENTATION AND EXPLANATION OF ANY NEW U. S. INITIATIVE WOULD BE THE MOST EFFECTIVE COURSE OF ACTION TO ADOPT. THOMPSON

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# Message Attributes

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